

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00

DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04

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INFO USMISSION USBERLIN

AMEMBASSY BERLIN

AMEMBASSY MOSCOW

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION NATO BRUSSELS

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C O N F I D E N T I A L SECTION 01 OF 02 BONN 05351

E.O. 11652: GDS

TAGS: EEWT, GW, GE

SUBJECT: WEST GERMAN VIEWS ON LEIPZIG

REF: BONN 3881

1. SUMMARY: FROM POINT OF VIEW OF BOTH GERMAN INDUSTRY AND THE GERMAN GOVERNMENT, LEIPZIG DID NOT GO WELL. ANNOUNCEMENT OF DECISION ON BRANDENBURG STEEL MILL AND RIGID DEMANDS FOR COMPENSATION DEALS WERE DISAPPOINTING; MOREOVER, POLITICAL DIFFICULTIES SEEM TO BE TAKING THEIR TOLL ON THE ECONOMIC SIDE. THANKS TO PIPELINE COMMITMENTS, TRADE CAN BE EXPECTED TO AGAIN EXPAND IN 1977, BUT NO NEW MAJOR DEALS ARE ON THE HORIZON. END SUMMARY.

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2. THE FEDERAL REPUBLIC WAS AGAIN THE LARGEST WESTERN EXHIBITOR IN THE LEIPZIG FAIR, WITH APPROXIMATELY 800 FIRMS IN ATTENDANCE. STATE SECRETARY ROHWEDDER VISITED THE FAIR FOR ONE DAY, HOLDING BRIEF DISCUSSION WITH FOREIGN TRADE MINISTER SOELLE ON THE SAME DAY. ECONMIN SOURCE BRIEFED EMBOFF ON ROHWEDDER'S DISCUSSIONS AND

OFFERED HIS OBSERVATIONS ON VIEWS OF BOTH INDUSTRY AND GOVERNMENT TOWARDS LEIPZIG FAIR AND FRG/GDR RELATIONS.

3. ROHWEDDER AND SOELLE FOCUSED ON TRADE RELATIONS IN THEIR 50 MINUTE DISCUSSION AND THEY SPARRED BRIEFLY ON THE QUESTION OF SEPARATING ECONOMIC AND POLITICAL RELATIONS. SOELLE ARGUED THAT THE TWO COULD BE CLEARLY SEPARATED WITH ROHWEDDER SUGGESTING THAT MOVEMENT IN ONE AREA IS INVARIABLY TIED TO THE OTHER. ECONMIN SOURCE TOLD EMBOFF THAT HIS MINISTRY PRIVATELY HAS NO OBJECTION TO A SEPARATION OF POLITICAL AND ECONOMIC ISSUES. TRADE CONTINUES TO EXPAND AND THE MINISTRY DOES NOT WANT THE POLITICAL SITUATION TO AFFECT THIS DEVELOPMENT ADVERSELY. BECAUSE OF RECENT GDR ACTIONS IN THE POLITICAL ARENA, HOWEVER, FRG MUST CONTINUE, AT THE OFFICIAL LEVEL, TO LINK THE TWO FIELDS.

4. GERMAN BUSINESS WAS NOT PARTICULARLY PLEASED WITH THE BUSINESS CONTACTS AND DEALS WHICH WERE COMPLETED AT LEIPZIG. A POLL AFTER THE FAIR SHOWED THAT THE AMOUNT OF BUSINESS WAS ROUGHLY EQUAL TO 1976, BUT THAT THE DEMANDS FOR COMPENSATION ARRANGEMENTS HAD SIGNIFICANTLY BURDENED THE DISCUSSIONS. IN MOST CASES EAST GERMAN OFFICIALS BEGAN WITH A DEMAND FOR 100 PERCENT COMPENSATION, COMING DOWN TO 40 PERCENT TO 50 PERCENT ONLY IN CERTAIN INDUSTRIAL SECTORS, AND ONLY AFTER DIFFICULT NEGOTIATIONS. ACCORDING TO WEST GERMAN FIRMS AT THE FAIR, COMPENSATION WAS ALWAYS THE NUMBER ONE TOPIC. THE WEST GERMAN TRADE PRESS VIEWS THAT CONFIDENTIAL

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THE FLEXIBILITY DEMONSTRATED BY THE EASTGERMANS ON THIS MATTER AT THE FALL 1976 LEIPZIG FAIR WAS NOTICEABLY ABSENT THIS TIME AROUND. DIHT (UMBR ORGANIZATION

OF GERMAN INDUSTRY) BELIEVES THAT EVEN 40-50 PERCENT COMPENSATION DEMANDS WILL DRIVE SMALL AND MIDDLE-SIZE FIRMS OUT OF INNER-GERMAN TRADE.

5. THE FRG AND SALZGITTER WERE PARTICULARLY DISAPPOINTED IN THE EAST GERMAN DECISION TO AWARD THE CONTRACT FOR A STEEL MILL IN BRANDENBURG TO AN ITALIAN FIRM. IT WAS WELL KNOWN THAT THE ITALIAN PRICE WAS CHEAPER, BUT THIS HAS OFTEN BEEN THE CASE FOR GERMAN FIRMS AND THEY HAVE WON THE CONTRACT ANYWAY. CAPABILITIES OF THE ITALIAN FIRM ARE AN UNKNOWN FACTOR ACCORDING TO OUR SOURCE. HE BELIEVES THE KEY TO GDR DECISION WAS WILLINGNESS OF ITALIANS TO TAKE 100 PERCENT OF THE PURCHASE PRICE IN RETURN PURCHASES.

60 PERCENT OF THESE RETURN DELIVERIES WILL CONSIST OF STEEL OR STEEL PRODUCTS. EAST GERMANY'S CONTINUING EFFORTS TO SHIFT ITS TRADE WITH THE WEST AWAY FROM THE FRG, AND THE CURRENT POLITICAL SITUATION, ALSO SEEM TO HAVE CONTRIBUTED TO THE GDR DECISION.

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 05351

6. THE QUESTION OF FURTHER CREDITS OR GUARANTEES FOR EAST GERMANY CONTINUES TO BE A CONTROVERSIAL TOPIC IN THE FRG. DIHT AND SEVERAL FIRMS CLAIM THAT FURTHER DEVELOPMENT OF TRADE WILL BE HINDERED BY LACK OF ADDITIONAL CREDITS, AND SALZGITTER HAS CLAIMED THAT LACK OF GUARANTEES PLAYED A ROLE IN GDR DECISION TO AWARD THE CONTRACT TO THE ITALIANS. ECONMIN SOURCE ADMITTED THAT THE FRG WAS PERHAPS AT FAULT FOR NOT OFFERING GUARANTEES TO SALZGITTER LAST NOVEMBER WHEN THE QUESTION OF FINANCING BECAME IMPORTANT. HE NOTED

THAT THE CURRENT DM 2.25 BILLION CEILING ON GUARANTEES
HAS NOT, AS REPORTED IN THE PRESS, BEEN TOTALLY USED
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UP. FUNDS ARE STILL AVAILABLE FOR SMALL AND MEDIUM-SIZED PROJECTS. MAJOR DEALS, HOWEVER, CANNOT BE COVERED. ROHWEDDER STATED IN A PRESS CONFERENCE FOLLOWING LEIPZIG THAT THE QUESTION OF FURTHER CREDITS OR GUARANTEES FOR EAST GERMANY WAS SIMPLY NOT IN THE REALM OF THE POSSIBLE AT THIS TIME. OUR SOURCE AGREED, BUT NOTED THAT THIS POSITION IS RELATIVELY EASY FOR THE FRG SINCE NO MAJOR PROJECTS ARE ON THE HORIZON. ECONMIN BELIEVES THAT A HIGHER CREDIT CEILING SHOULD BE APPROVED BEFORE MAJOR DEALS DO ARISE SO THAT GERMAN FIRMS WILL NOT BE HINDERED FROM ENTERING INITIAL BIDDING PHASE. POLITICAL CONSIDERATIONS DO NOT PERMIT THIS AT THE PRESENT TIME, HOWEVER.

7. THE ONE BRIGHT SPOT FOR THE FRG WAS EAST GERMAN AGREEMENT TO PURCHASE DM 20 MILLION IN QUALITY CLOTHING FROM THE FEDERAL REPUBLIC. FRG HAD PROPOSED THIS SOME TIME AGO AS QUID PRO QUO FOR THE CONCESSIONS IN VARIOUS PRODUCT GROUPS WHICH ARE SUBJECT TO FRG IMPORT QUOTAS. THE GDR HAD STALLED UNTIL WEST GERMAN SIDE THREATENED TO WITHDRAW CONCESSIONS. WEST GERMAN FIRMS ALSO SEEMED PLEASED WITH THEIR CONTACTS AT LEIPZIG WITH OTHER EAST BLOC TRADING ORGANIZATIONS.

8. OUR SOURCE PREDICTED INCREASED TRADE FLOWS IN 1977, PERHAPS ON THE LEVEL OF 7-8 PERCENT IN EACH DIRECTION. THE FRG HAS SEVERAL DELIVERIES IN THE PIPELINE WITH UHDE PLANNING DM 250 MILLION IN EXPORTS FOR THE PETRO-CHEMICAL PLANT IT IS CONSTRUCTING. EAST GERMANY IS EXPECTED TO MAINTAIN REASONABLY GOOD GROWTH RATES IN THE SECTORS IN WHICH IT EXPANDED ITS DELIVERIES IN 1976.

9. COMMENT: WE PERCEIVE A SOMEWHAT MORE PESSIMISTIC ATTITUDE AMONG CONTACTS ON THE ECONOMIC SIDE OF THE FRG/GDR CONNECTION. WHILE TRADE SEEMS TO FLOW RATHER
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SMOOTHLY, INDEPENDENT OF THE POLITICAL PROBLEMS, THE LOSS OF THE BRANDENBURG DEAL WAS A SETBACK FOR THE FRG. FURTHER CREDITS OR GUARANTEES SEEM TO BE NECESSARY FOR THE CONTINUED GROWTH OF TRADE, YET NEITHER SEEM

TO BE IN THE OFFING. GERMAN FIRMS ARE FINDING IT
INCREASINGLY DIFFICULT TO DEAL WITH THE SEEMINGLY
INFLEXIBLE DEMANDS OF THE GDR FOR COMPENSATION ARRANGE-
MENTS AND THEY INCREASINGLY SEE THEMSELVES AS THE SELLER
OF LAST RESORT. END COMMENT
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